

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 L-03 H-02 PA-01 PRS-01 /087 W

----- 007633

R 101706Z FEB 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 6382

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USMISSION USBERLIN

USNMR SHAPE

AMCONSUL FRANKFURT

AMCONSUL MUNICH

AMCONSUL BREMEN

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AMCONSUL STUTTGART

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CINC USAREUR HEIDELBERG

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DEPARTMENT PASS TREASURY, FRB AND CEA

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: ROUND-UP OF 1976 GNP FORECASTS FOR THE
FRG -- DOES THE SILVER CLOUD HAVE A BLACK LINING?

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REF: (A) BONN 1968, (B) BONN 1494

1. PUBLIC FORECASTS OF 1976 GNP HAVE COME FORTH IN GREAT ABUNDANCE OF LATE. NOTABLE IS THE LACK OF GREAT VARIATION BETWEEN THEM, WITH THE RANGE OF REAL GROWTH FORESEEN BEING 3.8 TO 5 PERCENT. IT SHOULD BE EMPHASIZED THAT ALL THESE FORECASTS APPEARED IN OPEN PUBLICATIONS. AS REPORTED REFTEL B, JUST DAYS BEFORE THE APPEARANCE OF THE IFO PUBLIC FORECAST, THE HEAD OF THE RESPONSIBLE DEPARTMENT GAVE US A PRIVATE FORECAST THAT GROWTH WOULD BE OF A SLIGHTLY LOWER MAGNITUDE THAN THE 4 PERCENT PUBLISHED AND CONTAINED IN TABLE AT THE END OF THIS CABLE. THE DEUTSCHES INSTITUT FÜR WIRTSCHAFTSFORSCHUNG (DIW) IN BERLIN (GERMAN INSTITUTE FOR ECONOMIC RESEARCH) CAME UP WITH THE SURPRISINGLY HIGH 5 PERCENT ESTIMATE; THE BUSINESS-SUPPORTED BDI INSTITUTE WAS ON THE LOW SIDE AT 3.8. BOTTOM-LINE DEVIATIONS FROM THE GOVERNMENT 4.5 PERCENT PROJECTION ARE THEREFORE MINOR.

2. THERE ARE, HOWEVER, SOME VARIATIONS IN THE DEVELOPMENT OF THE DIFFERENT GNP COMPONENTS AS SEEN BY THE VARIOUS FORECASTERS, AND IN THESE AREAS OF NON-CONSENSUS THERE EMERGE THE POSSIBLE WEAK ELEMENTS IN THE GERMAN ECONOMIC OUTLOOK. FIXED INVESTMENT GROWTH IS MUCH MORE OPTIMISTICALLY VIEWED BY THE COUNCIL OF ECONOMIC EXPERTS THAN ANYONE ELSE AT 5.5 PERCENT REAL GROWTH; IFO WAS THE MOST MODEST IN ITS PROJECTION FOR THIS ELEMENT WITH A 2.3 PERCENT RISE. DIW IS THE HIGHEST IN TERMS OF EXPECTATIONS FOR CONTRIBUTIONS FROM STOCKBUILDING AND IN FACT REFLECTS 5 BILLION DM MORE THAN EVEN THE COUNCIL OF ECONOMIC EXPERTS IN CONSTANT PRICE TERMS. THE RANGE FOR THE NET FOREIGN BALANCE BETWEEN THE VARIOUS FORECASTS IS ONLY BETWEEN 10.5 AND 12.5 BILLION DEUTSCHMARKS IN 1962 PRICE TERMS. HOWEVER, IN NOMINAL TERMS THE VARIATION IS MORE MARKED, WITH THE GOVERNMENT ON THE HIGH SIDE AT DM 25.5 BILLION AND THE INSTITUTES AT AROUND DM 18 BILLION ON THE LOW SIDE. ALL ANTICIPATE EXPORTS OF GOODS AND SERVICES TO GROW AT A RELATIVELY HEALTHY CLIP WITH THE EXCEPTION OF THE BUSINESS-RELATED BDI INSTITUTE. BUT SINCE THE BDI ALSO ASSUMES A LOWER GROWTH IN IMPORTS, LIMITED OFFICIAL USE

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THE NET FOREIGN BALANCE VARIES LITTLE FROM THE OTHERS. THIS POINTS UP THE FACT THAT EVEN THOUGH THERE ARE ELEMENTS OF UNDUE OPTIMISM FOR EXPORTS INCORPORATED IN THE VARIOUS OTHER FORECASTS (INCLUDING THAT OF THE GOVERNMENT) WHICH THE LATEST DATA DO NOT SEEM TO SUPPORT (SEE REFTEL A), THIS DOES NOT NECESSARILY MEAN GNP GROWTH IS AS A RESULT BEING OVERSTATED, PROVIDED THERE IS THE ACCOMPANYING, OFFSETTING DAMPENING OF

IMPORT DEMAND. THIS IS AN IMPORTANT PROVISIO GIVEN THE
WIDESPREAD SKEPTICISM CONCERNING THE EXPORT ASSUMPTIONS.

3. SIGNIFICANTLY, ALL FORECASTERS SEE EMPLOYMENT
DROPPING DESPITE FAIRLY GOOD ECONOMIC GROWTH. THE
1 TO 1.5 PERCENT DECLINE IN EMPLOYMENT EQUATES TO
275,000 TO 410,000 FEWER JOBS ON THE LABOR MARKET. THIS
IS ONE BLACK LINING IN THE SILVER CLOUD.

4. NOT INCLUDED IN THE ACCOMPANYING TABLE ARE REPORTS
FROM VARIOUS PRIVATE BANKING SOURCES THAT SUGGEST THE
CONSENSUS FROM THAT SECTOR IS FOR 3-4 PERCENT REAL GNP

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SIL-01 L-03 H-02 PA-01 PRS-01 /087 W

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R 101706Z FEB 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 6383

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

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GROWTH. THIS REPRESENTS A SLIGHT UPPING FROM THEIR EARLIER EXPECTATIONS OF 3 PERCENT GROWTH. THE UPPING OF THEIR 1976 FORECAST DOES NOT REFLECT MORE OPTIMISM OF WHAT WILL HAPPEN BETWEEN NOW AND NEXT DECEMBER, BUT RATHER THE REALIZATION THAT THE MAINTENANCE OF CURRENT LEVELS ALONE WILL ALREADY ACCOUNT FOR AN AVERAGE 1976 GNP GROWTH CLOSE TO THEIR PREVIOUS LIMITED OFFICIAL USE

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ESTIMATE. NONE OF THESE FORECASTS -- OTHER THAN THE REVISED ONE FROM THE BANKS -- TAKE INTO ACCOUNT THE RECENTLY AVAILABLE PRODUCTION AND ORDER DATA CONTAINED IN REFTEL A WHICH SUGGESTED THAT THE GERMAN UPTURN HESITATED IN DECEMBER. THEY ALL HAD THE EARLIER, MORE FAVORABLE DATA BASE INFLUENCING THEIR JUDGMENT. THEY, ALONG WITH THE BANKS, SEEM TO HAVE PLACED GREAT WEIGHT ON THE STATISTICAL "OVERHANG" EFFECT ALSO DESCRIBED PARA 3, REFTEL A.

5. RESULTS OF A RECENT SURVEY OF BUSINESS OPINION SUGGEST CAUTION IN PROJECTING FUTURE DEVELOPMENTS. ACCORDING TO THIS SUBJECTIVE ANALYSIS, THE CONSTRUCTION INDUSTRY NOW LOOKS FOR A DOWNTURN IN PRODUCTION OF 5-6 PERCENT WHEREAS THE EARLIER SURVEY PERFORMED IN OCTOBER SUGGESTED THAT THE 1975 PRODUCTION LEVEL WOULD BE MAINTAINED IN 1976. IN THE AUTOMOBILE INDUSTRY, A SECTOR BELIEVED BY MANY TO BE AMONG THE MAJOR SUSTAINING ELEMENTS IN 1976, THE INSTITUTE FOUND SALES EXPECTATIONS THIS YEAR TO HAVE DETERIORATED FROM THE 20 PERCENT ANTICIPATED IN OCTOBER TO A ZERO TO 5 PERCENT GAIN RATING IN JANUARY. THE NATIONAL ASSOCIATION OF AUTOMOBILE MANUFACTURERS RECENTLY NOTED CONTINUED BRISK DOMESTIC SALES BUT FAILED TO SEE ANY SIGNS OF A REVIVAL OF EXPORTS. THE SPOKESMAN OF THE NATIONAL GERMAN CHAMBER OF COMMERCE PREDICTED A SHALLOW, SLOW AND LABORIOUS UPTURN. IN PARTICULAR HE SAW LITTLE OR NO CHANCES FOR AN INCREASE FOR INVESTMENT OVER 1975 LEVELS, SPECIFICALLY MENTIONING AN APPARENT ABSENCE OF ANY EVIDENCE OF AN APPRECIABLE INVENTORY BUILDUP.

6. THE FOLLOWING TABLE SUMMARIZES FIVE OF THE MORE SIGNIFICANT ECONOMIC FORECASTS FOR THE FRG PUBLISHED RECENTLY:

PROJECTIONS FOR 1976
PERCENT CHANGE FROM PRECEDING YEAR

IFO DIW BDI GOV.1/ COUNCIL
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EMPLOYMENT -1.5 -1 - -1 -1

GNP, REAL,
1962 PRICES 4 5 3.8 4.5 4.5

PRIV CONS 2.5 3 2.5 - 3
GOV CONS 1.5 2 1.5 - 1.5
FIXED INVEST 2.3 3 3 - 5.5
EQUIPM 3.5 5.5 4.5 - 6
CONSTRUCT 1 1 1.5 - 4.5
CHANGE IN INVEN-
TORIES (DM BILL)(9) (12.5) (8.5) - (7.5)
NET FOR BAL
(DM BILL) (12.5) (12) (11.5) - (10.5)
EXP 6.5 8.5 4.5 - 7.5

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FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 L-03 H-02 PA-01 PRS-01 /087 W
----- 007690

R 101706Z FEB 76
 FM AMEMBASSY BONN
 TO SECSTATE WASHDC 6384
 INFO AMEMBASSY LONDON
 AMEMBASSY PARIS
 AMEMBASSY ROME
 USMISSION EC BRUSSELS
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IMP	7	9.5	5	-	9
GNP, NOMINAL	8	9	-	9	8.5

PRIV CONS	8	8.5	-	8	8.5
GOV CONS	8	8	-	7	6.5
FIXED INVEST	5	6.5	-	6.5	8.5

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EQUIPM	7.5	10	-	8.5	10
CONSTRUCT	3	3.5	-	4.5	7
CHANGE IN INVEN-					
TORIES (DM BILL)(14) (17)	-	(12.5)	(11)		
NET FOR BAL					
(DM BILL) (18.5) (18)	-	(25.5)	(20.5)		
EXP	9.5	10.5	-	10	11
IMP	12.5	14	-	11	13.5

SAVINGS RATIO 14.5 14.7 14.7 14.5 15.2

1/ THE GOVERNMENT'S TARGET PROJECTIONS THIS YEAR WERE
 GIVEN IN RANGES; THE FIGURES SHOWN HERE ARE THE MEDIAN
 POINTS WITHIN THE STATED RANGES.

NOTE: IFO IFO ECONOMIC RESEARCH INSTITUTE, MUNICH,
 JAN. 76;

DIW GERMAN ECONOMIC RESEARCH INSTITUTE, BERLIN,
JAN. 76;
GOV. GOVERNMENT ANNUAL ECONOMIC REPORT, JAN.1976;
COUNCIL COUNCIL OF ECONOMIC EXPERTS, ANNUAL REPORT,
NOV. 75.
CASH

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GNP, ECONOMIC ESTIMATES, ECONOMIC DATA, ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 10 FEB 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976BONN02319
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760050-0708
From: BONN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760265/aaaacfdj.tel
Line Count: 337
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 BONN 1968, 76 BONN 1494
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags:
Review Date: 24 MAR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <24 MAR 2004 by ElyME>; APPROVED <03 JUN 2004 by morefirh>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ROUND-UP OF 1976 GNP FORECASTS FOR THE FRG -- DOES THE SILVER CLOUD HAVE A BLACK LINING?
TAGS: EFIN, GE
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006